

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

ILLINOIS COMMERCE COMMISSION)
On Its Own Motion)
-vs-)
COMMONWEALTH EDISON COMPANY) No. 99-0282
Proceeding pursuant to Section 16-111(g) of the)
Public Utilities Act concerning proposed sale of)
fossil fuel fired generating plants.)

TESTIMONY OF DANIEL E. THONE
ASSISTANT TREASURER
COMMONWEALTH EDISON COMPANY

Q. What is your name?
A. Daniel E. Thone.
Q. By whom are you employed?
A. Commonwealth Edison Company ("ComEd").
Q. What is your business address?
A. Ten South Dearborn Street, Chicago, Illinois.
Q. In what capacity are you employed by ComEd?

1 A. I am Assistant Treasurer.

2
3 Q. How long have you been employed by ComEd?

4 A. Since 1990.

5
6 Q. What other positions have you held at ComEd?

7 A. From 1990 through 1992, I was a Research Analyst in the Economic Analysis Section of
8 the Strategic Analysis Department. In 1993, I was promoted to Supervisor, Economic
9 Analysis, Strategic Analysis Department and remained in that position until 1996. In
10 1996, I was promoted to Financial Analysis Administrator in the Strategic Analysis
11 Department and later that year was promoted again to Director of Strategic Analysis.

12
13 On May 4, 1998, I was promoted to Director of Financial Planning. As Director of
14 Financial Planning I was responsible for managing three individual sections, Load
15 Forecasting & Analysis, Resource Planning and Financial Forecasting. Work performed in
16 the Load Forecasting & Analysis section includes development of the corporate peak and
17 output forecasts and load profiling analyses for the service territory as well as any
18 customer subset therein. The Resource Planning area is responsible for economic dispatch
19 and expansion analysis for the company's generating assets and includes economic analyses
20 of capital additions, asset rationalization, outage optimization planning, assistance in the

1 development of forward pricing curves, fuel usage forecasts and reliability planning. The
2 Financial Forecasting section develops the corporation's long- and short- term financial
3 forecasts and financial performance measurement tools, performs financial variance
4 analyses, prepares investor and banker presentations and assesses strategic initiatives from
5 a financial perspective.

6
7 On May 8, 1999, I was named to my present position.

8
9 Q. What business experience did you have prior to working for ComEd?

10 A. I was employed by NIPSCO Industries, Inc. ("NIPSCO") beginning in 1975 as a District
11 Engineer. During my tenure at NIPSCO, I held various other engineering positions, was
12 promoted to Project Manager, then Senior Project Manager and finally to Senior Strategic
13 Planning Analyst.

14
15 Q. What education degrees have you been awarded?

16 A. In 1975, I was awarded a Bachelors of Science Degree in Engineering from Purdue
17 University. I was awarded a Masters of Science in Business Administration in 1985 from
18 Indiana University and a Masters in Business Administration in 1991, also from Indiana
19 University.

20

1 Q. What is the purpose of your testimony?

2 A. To describe why the sale by ComEd of its fossil-fueled generating stations and peaking
3 facilities (collectively, the "Stations") will not render ComEd unable to meet its generation
4 service obligations in a safe and reliable manner.

5

6 Q. Are you familiar with the Notice of Property Sale ("Notice") that has been filed by ComEd
7 in this proceeding?

8 A. Yes.

9

10 Q. Are you familiar with the transaction that is described in that Notice?

11 A. Yes.

12

13 Q. Does ComEd expect that its generation service obligations will change over the next few
14 years?

15 A. Yes, ComEd does expect that its generation service requirements will change over the
16 next few years.

17

18 Q. How does ComEd expect its generation service obligations to change?

19 A. ComEd expects that its generation service requirements will decline over the next few
20 years as services currently provided by ComEd are declared to be competitive. Prior to

1 the time that services are declared to be competitive, ComEd expects that the amount of
2 load it is actually called upon to serve will decline as customers choose to take service
3 from alternative providers. ComEd anticipates these effects as a result of competition for
4 several reasons. First, the legislation has created the framework to allow competition to
5 occur. Second, electric customers are demanding choice through competition. Third,
6 ComEd has engaged in multiple initiatives to encourage competition, of which this sale is
7 one. In addition, ComEd expects that demand-side resources, such as demand-side
8 management programs, and load curtailment and conservation programs, will continue to
9 reduce ComEd's needs for generating capacity.

10
11 For these reasons, it is reasonable to assume that ComEd's generation service obligations
12 will decline over the next few years, thereby reducing or eliminating ComEd's need to find
13 replacement capacity and energy for its ownership of the Stations. However, at this time,
14 the magnitude of the declines in both service obligations and the amount of load ComEd
15 will actually be called upon to serve from time-to-time are unknown.

16
17 Q. If ComEd is unsure how its service obligations and the amount of load it will be called
18 upon to serve will change, how is ComEd planning to meet its obligations and serve
19 whatever amount of load it will be called upon to serve?

1 A. ComEd is developing a portfolio of generation resources that is more flexible than its
2 generation portfolio has been in the past. At least in the short-term, ComEd intends to
3 rely upon purchased capacity and energy to a greater extent than it has historically. The
4 power purchase agreements ("PPAs") that are part of the transaction that is the subject of
5 ComEd's Notice are a primary example of how ComEd will use purchased power as a
6 flexible means of meeting its service obligations. As explained by Mr. Robert J. Manning
7 (ComEd Ex. 1.0), through the combination of Contracted Capacity and options, the PPAs
8 grant ComEd access to all of the capacity from the Stations, with the amount of capacity
9 taken by ComEd allowed to decline -- at ComEd's option -- over the five-year term of the
10 PPAs. Accordingly, as provided in the PPAs, to the extent that ComEd needs the
11 capacity, it will be available to ComEd. To the extent that ComEd will not need the
12 capacity, ComEd will not be required to take -- or pay -- for it. In contrast, when ComEd
13 owns a generating facility, it must pay all the costs associated with the capacity whether it
14 uses it or not.

15
16 Q. Will the sale of the Stations change the way ComEd meets its generation service
17 obligations?

18 A. Not necessarily. Although, at least for the next few years, ComEd expects that it will need
19 some capacity and energy from the Stations to meet its service obligations, ComEd does
20 not need to own the Stations to meet those obligations. The transaction will result only in

1 a change in ownership of the Stations. The sale will not necessarily change the sources of
2 the generation -- including the Stations -- that ComEd uses to meet its service obligations.
3 In the short term, because of the PPAs that are part of the transaction, there is expected to
4 be little if any change in the way ComEd meets its generation service obligations. Indeed,
5 as explained below, even after the PPAs expire, it is possible that ComEd will continue to
6 utilize the capacity from the Stations to meet its generation service obligations. What the
7 transaction does do is give ComEd flexibility to (1) reduce the amount of capacity it uses
8 to serve its customers' load to the extent such reduction is appropriate, and (2) make a
9 change in the source of capacity from which ComEd meets its service obligations if it is
10 desirable to do so based on economics, sustained maintenance of reliability or other
11 pertinent considerations.

12
13 Q. How will ComEd continue to meet its generation service obligations after consummation
14 of the transaction?

15 A. ComEd will meet its generation service obligations through a flexible generation portfolio
16 that will include both existing and new capacity. Immediately after the sale, ComEd will
17 rely primarily on its existing sources of generation capacity, including the Stations, to meet
18 its generation service obligations. Within the next few years, ComEd expects that (1) the
19 load it is obligated and called upon to serve will decline, and (2) new sources of
20 generation will be available to ComEd. To the extent ComEd needs or desires capacity or

1 energy in addition to that which it owns or is otherwise committed to take, ComEd will
2 use new sources of generation capacity to supplement or replace its existing generation
3 capacity, including the capacity from the Stations available to ComEd through the PPAs, if
4 it is economical to do so. The structure of the PPAs will allow ComEd a greater
5 opportunity than it would have otherwise to assess the effects of the evolving electric
6 energy market and acquire capacity, including potentially more economical alternatives, as
7 needed or desired.

8
9 Q. What are ComEd's existing sources of generation capacity?

10 A. ComEd's existing sources of generation capacity -- most of which will not be affected by
11 the sale -- fall into four categories. First, ComEd will continue to own and operate its five
12 nuclear-fueled generating stations. These stations have a capacity of 9,214 (summer)
13 megawatts.

14
15 Second, ComEd has a right to all of the capacity and energy from the Kincaid and State
16 Line Stations, 1,108 and 490 megawatts, respectively, pursuant to existing power
17 purchase agreements which have terms that extend through 2012.

18
19 Third, ComEd has wholesale firm capacity purchase agreements with other generation
20 providers. These agreements provide firm summer capacity (May through September) in

1 the amount of 360 megawatts through the summer of 2000, and 300 megawatts of firm
2 power from June 1999 through December 2004. In addition, within ComEd's service
3 territory, 87 megawatts of non-utility-owned capacity is available at time of peak and is
4 under contract to ComEd pursuant to various rates filed with the Commission.
5

6 Fourth, as explained by Mr. Manning (ComEd Ex. 1.0), the combination of committed
7 capacity and option rights included in the PPAs provides ComEd with the ability to retain
8 all of the capacity from the Stations, with the amount available to ComEd allowed to
9 decline at ComEd's option during the terms of the PPAs. However, if it is necessary or
10 desirable, the PPAs also grant ComEd the right to keep all of the capacity from the
11 Stations for the entire five-year term of the PPAs. Pursuant to the PPAs, the buyer is
12 required to ensure that the net dependable capability of the Stations is equal or greater
13 than 5,645 megawatts for the coal-fueled generating units, 2,698 megawatts for the
14 Collins Station, and 943.6 megawatts for the peaking units.
15

16 Fifth, ComEd may purchase power directly from its customers pursuant to various tariffed
17 programs.
18

19 Q. What new sources of generation capacity does ComEd expect to be available to it?

1 A. ComEd expects to have new capacity available to it over the next few years from a variety
2 of sources. In some cases, the capacity will be truly "new" in that it does not exist today.
3 In other cases, it will be "new" to ComEd in that ComEd does not rely upon it today.

4 First, _____
5 _____
6 _____
7 _____
8 _____
9 _____ ¹

10
11 Second, the agreement with Edison Mission Energy ("Mission") (the "Mission
12 Agreement") requires Mission to complete installation of 500 megawatts of gas-fired
13 capacity within the City of Chicago no later than the fourth anniversary of the closing date
14 (which is expected to be in September 1999). ComEd will have a right of first offer on
15 firm, committed capacity from the new unit or units. Under this right, Mission must offer
16 firm, committed capacity to ComEd before it can offer such capacity to any other potential
17 purchaser and, if ComEd declines the offer, Mission may not offer it to any other entity on
18 terms more favorable than the terms offered to ComEd.

19

¹ The designated text was redacted because it includes confidential and proprietary information.

1 Third, ComEd expects that other utilities will continue to be a reliable source of wholesale
2 generation capacity and that such capacity will be available to ComEd in the wholesale
3 market. ComEd will continue to review market conditions and evaluate offers of capacity
4 with respect to its existing demand and resource situation, as it has always done in the
5 past. Capacity transactions will be executed as needed to ensure an adequate and reliable
6 supply of electricity in ComEd's service territory.

7
8 Fourth, ComEd expects that independent power producers ("IPPs"), which are already
9 beginning to play a much larger role in electric generation in Illinois than they have in the
10 past, will produce significantly larger amounts of wholesale capacity and energy. As
11 discussed by Mr. Manning (ComEd Ex. 1.0), ComEd believes that the sale of ComEd's
12 Stations will encourage others, such as IPP developers, to build capacity in Illinois.

13
14 Q. Does ComEd anticipate that, after the PPAs expire, it will need to replace the capacity
15 represented by the Stations?

16 A. ComEd does not know whether it will need to replace the capacity represented by the
17 Stations when the PPAs expires. As I discussed earlier, it is not possible to predict, at this
18 time, what load ComEd will be called upon to serve from time-to-time after open access
19 begins, or what ComEd's service obligations will be once services that it now provides
20 begin to be declared competitive. However, regardless of the sale of the Stations or

1 termination of the PPAs, the Stations are in Illinois and will always be in Illinois. Thus, it
2 is likely that the capacity from the Stations will continue to be used to serve customers in
3 ComEd's service territory, either through other retail electric suppliers or ComEd. Indeed,
4 if all or some of the capacity of the Stations is not then being used by other retail electric
5 suppliers, ComEd itself would likely purchase capacity and energy from the Stations at
6 prevailing market prices to serve its customers.

7
8 In any event, if a need exists to replace some or all of the capacity or energy represented
9 by the Stations to serve ComEd's customers, and if ComEd does not execute a new power
10 purchase agreement for capacity and energy from the Stations, ComEd expects that it will
11 be able to meet its needs by purchasing from a robust market that will have developed
12 during the term of the PPAs.

13
14 Q. Why does ComEd believe that a robust generation market will develop during the term of
15 the PPAs?

16 A. The combination of experience in other jurisdictions, coupled with the concrete evidence
17 that investors are seriously considering capacity investments in Illinois -- and are already
18 expending time and money in furtherance of that interest -- and, as discussed by Mr.
19 Manning (ComEd Ex. 1.0), the fact that the sale of the Stations will give potential

1 investors confidence that the market in Illinois is indeed competitive, provide reasonable
2 assurances that when Illinois requires capacity, it will be here.

3
4 Several developers already have generation capacity addition projects under way in
5 Illinois: for example, an approximately 600 megawatt gas-fired station in Elwood, Illinois,
6 which is a joint project by Dominion Resources, Inc. and Peoples' Energy Corp., and an
7 approximately 250 megawatt gas-fired station in East Dundee, Illinois, which is a joint
8 project by Nicor Gas Co. and Dynegy Power Corp., are now in the final stages of
9 construction. These stations are expected to have in-service dates of approximately June
10 1999 and July 1999, respectively.

11
12 Experience in states that have already moved to open access demonstrates that the
13 capacity expansion trend in Illinois is likely to accelerate. For example, the new
14 generating capacity under various stages of development in New England -- over 20,000
15 megawatts -- exceeds the entire current generating capabilities of that region. Similarly,
16 almost 11,000 megawatts of new IPP capacity has been proposed in California by over a
17 dozen separate developers. Likewise, almost 10,000 megawatts of new IPP capacity has
18 been proposed in Texas by over a dozen different developers. Much of this new capacity
19 is already under construction or in advanced stages of development. Nationally, over

1 80,000 megawatts of new "merchant" capacity has been announced by dozens of separate
2 IPP developers, mostly in states where restructuring is underway.

3
4 In Illinois, the Illinois Environmental Protection Agency ("IEPA") has received at least 16
5 applications for permits for the installation of electric generating capacity with aggregate
6 capacity in excess of 10,000 megawatts. A summary of the projects is contained on
7 Exhibit 3.1 to my testimony. Although not all of the capacity described on Exhibit 3.1
8 may ultimately be built, the fact that permits have been sought demonstrates significant
9 interest in installing new generation capacity in Illinois. Prior to submitting the required
10 IEPA application, an applicant had to devote considerable time and resources to select a
11 site for the proposed station and purchase or perform engineering and design work
12 sufficient to provide the detailed information required by the IEPA. These efforts
13 demonstrate a substantial commitment to the projects.

14
15 For all of these reasons, ComEd expects that it will be able to purchase at prevailing
16 market prices whatever amount of capacity and energy, if any, it needs to replace the
17 capacity or energy represented by the Stations to meet its service obligations after the
18 PPAs expire.

19

1 Q. But what if there is a need to replace the capacity and energy represented by the Stations
2 and ComEd is not able to purchase the needed capacity and energy from the market?

3 A. As Mr. Manning (ComEd Ex. 1.0) explains, if this remote situation presents itself, ComEd
4 will ensure that the necessary capacity is built.

5

6 Q. Does this conclude your testimony?

7 A. Yes.

ILLINOIS ENVIRONMENTAL PROTECTION AGENCY PERMIT APPLICATIONS

ENTITY	LOCATION	EXPECTED SERVICE DATE	MEGAWATTS
Cordova Energy Co. LLC	Cordova, IL	June 2001	500
Des Plaines Green Land Development LLC	Manhattan, IL	June 2000	664
Illinois Power Co.	Tilton, IL	May 1999	176
Illinois Power Co.	Hennepin, IL	May 1999	88
Indeck Pleasant Valley LLC	Dorr Township, IL	2000	300
Indeck-Libertyville, LLC	Libertyville, IL	2001	300
Kendall New Century Development LLC	Plano, IL	June 2000	664
KN Power Co.	Island Lake, IL	2001	510
LS Power LLC	Lee County, IL	2001	1000
LSP-Kendall Energy, LLC	Kendall County, IL	Summer 2001	1,100
Peoples Gas Light & Coke Co.	Elwood, IL	June 1999	3,100
Reliant Energy, Inc.	Roxana, IL	unavailable	749
Rocky Road Power LLC	East Dundee, IL	1999	277
Soyland Power Coop. Inc.	Alsey, IL	July 1999	60
Union Electric Development Corp.	Patoka, IL	May 2000	270
Union Electric Development Corp.	Gibson City, IL	May 2000	270
TOTAL MEGAWATTS			10,028 MW

Source: Illinois Environmental Protection Agency filings.